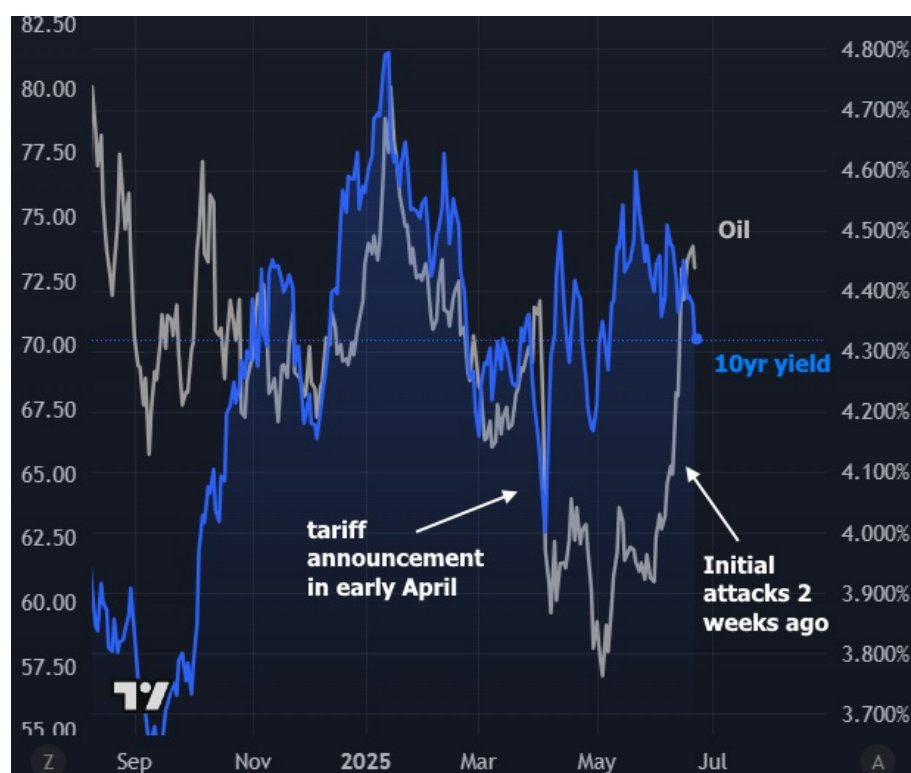


MBS & TREASURY MARKETS

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The Day Ahead: Bonds Don't Always React to "War" Like You'd Expect

A vast majority of long-time bond watchers share the same general understanding of how war impacts rates. Specifically, the increased global economic uncertainty drives safe-haven demand for US Treasuries, thus helping rates. While this CAN be true, it's not a hard and fast rule. Consider the Russia/Ukraine example in which an initial drop in rates gave way to a paradoxical spike due to inflation implications. Keen observers anticipated a similar risk over the weekend with respect to oil prices. Alas! Not only have oil prices barely budged over the weekend, but bonds didn't respond as expected when they initially spiked 2 weeks ago.



Over the weekend, there was initially no reaction whatsoever. As the day gets underway, bonds are stronger--partially due to reports that there was no radioactive contamination after the attack and partially due to unrelated dovish comments from Fed's Bowman.



Bryan Ashby

Owner, Ashby Financial Group, LC

www.ashbyfinancialgroup.com

P: (801) 294-6179

M: (801) 455-1007

bryan@ashbyfinancialgroup.com

326 Apricot Grove
Kaysville UT 84037



